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20 May 2009

Allan Dawson  
Chief Executive Officer  
Independent Market Operator  
Level 3 Governor Stirling Tower  
197 St Georges Tce  
PERTH WA 6000

Dear Allan,

**Re: RC\_2008\_34: Funding of SRC in the event of capacity credit reduction**

TransAlta welcomes the opportunity to comment on proposed rule change RC\_2008\_34.

TransAlta understands the objective of the rule change is to reallocate the cost of contracting Supplementary Reserve Capacity (SRC) from market customers to a generator or generators that can be identified as having caused the shortfall in Reserve Capacity (RC).

TransAlta also understands that any proposed rule must better contribute to the achievement of the wholesale electricity market objectives before the proposed rule can be adopted as a market rule. The wholesale electricity market objectives are:

- a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
- c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- d) to minimize the long-term cost of electricity supplied to customers from the South West interconnected system; and

- e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

TransAlta does not support the proposed rule change and believes that it is in conflict with the market objectives.

The market rules already contain capacity refund mechanisms to provide incentive to generators to make their registered capacity available to the market. Introducing further penalties will not change the behaviour of generators in relation to fixing problems. The additional penalties will be punitive and introduce further risks that will discourage existing market participants from further investing in the WEM. The proposed rule change is not aligned with the promotion of economically efficient outcomes and does not better contribute to objective (a).

The additional punitive penalties will also discourage new entrants from entering the market. The proposed rule change is not aligned with the need to encourage competition and does not better contribute to objective (b).

If SRC is procured by the IMO and market customers are insulated from these costs, market customers will not be encouraged to take measures to manage the amount of electricity used and when it is used. Market Customers will be dislocated from the need to conserve energy at the very time when the power system is under stress. The proposed rule change is not aligned with the need to encourage the taking of measures to manage the amount of electricity used and when it is used and does not better contribute to objective (e).

The proposed market rule change seeks to associate the need for SRC with circumstances that are not uncommon events. TransAlta's view is that SRC should only be needed when supply cannot meet demand because of unforeseen circumstances. Plant breakdowns and delays in construction and commissioning of new power stations are not that uncommon. Long term planning of power systems must take account of these types of circumstances and events and is the very reason why reserve margins are needed to meet reliability expectations. If SRC is needed to be contracted to cover these types of events then we would question whether the reserve margins are adequate.

The proposed market rule change also seeks to associate the need for SRC in the circumstance where a generator's capacity credits have been reduced following the failure by a generator to demonstrate the capacity of its facility under test. These circumstances should only arise because of a failure of equipment. Again SRC should not need to be contracted to cover equipment failures.

Market customers demand capacity and should pay for the capacity they demand from a power system. If reserve margins are too thin it is unreasonable and inequitable for market customers to be getting access to capacity that they are not paying for. We also note that capacity refunds that are paid by generators to the IMO when capacity is not presented to the system are distributed amongst market customers. Market customers are already being refunded for capacity that is not being presented to the system that they are paying for.

If the proposed rule change is aimed at capturing shortfalls in capacity because of unrealistic expectations of capacity level achievement, or unrealistic commissioning dates, and is seeking to apply the cost consequence to the culprits, then it is TransAlta's view that the proposed rule change is seeking to treat the symptoms of the problem and not the cause. The market rules should prevent the issuing of capacity credits to a market participant who has those unrealistic expectations.

It is TransAlta's view that the cost of procuring RC and SRC should always be allocated to market customers.

TransAlta also notes that through its interests in a number of market participants in the WEM, it has exposure to the risks faced by generators and market customers in the WEM.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Dan Cannon". The signature is fluid and cursive, with a large initial "D" and "C".

Dan Cannon  
Manager, Commercial & Business Development

